

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Varela **DATE TYPED** 02/17/05 **HB** 777

SHORT TITLE Decouple Lottery Scholarship From Tuition **SB** _____

ANALYST Williams

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			(\$832.1)	Recurring, but could escalate over time; see fiscal implications	Lottery Tuition Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to various student financial aid bills; duplicate of Senate Bill 651

SOURCES OF INFORMATION

- LFC Files
- Commission on Higher Education (CHE)
- New Mexico Lottery Authority (NMLA)
- Council of University Presidents
- New Mexico Association of Community Colleges (NMACC)

SUMMARY

Synopsis of Bill

House Bill 777 amends statute to decouple the lottery scholarship program from tuition and establish payments for tuition in specified amounts.

Flat tuition amounts would be established for three categories of public, post-secondary institutions. The proposed amount of the award would be included annually as part of the higher education budget recommendation of the commission on higher education and determined by the legislature. However, for FY06 the following is specified in the bill:

- Four-year, research institutions: \$1,400
- Four-year, comprehensive, regional institutions: \$900
- Two-year institutions: \$500

Scholarship awards would be placed in student accounts at the institutions and might be used to pay tuition, fees, books and course supplies. The bill specifically excludes use of the scholarship for room and board.

Significant Issues

This proposal is similar to recommendations of a recent report of the Commission on Higher Education, *“Improving Student Success in Postsecondary Education in New Mexico”*. A similar proposal was included in the report of the Governor’s Task Force on Higher Education.

Tuition and fees for 2004-2005 are shown on the attachment. To the extent the award amounts specified in this bill for FY06 and established by future legislatures are set below current and/or actual tuition levels in the future, students at certain institutions would receive a reduction in lottery tuition payments to pay for tuition, all other things held constant. To the extent the award amounts specified for FY06 and established by future legislatures are set above current and/or actual tuition levels in the future, students at certain other institutions would be able to utilize the funds for fees, book and course supplies.

Potential Advantages:

- Allow families or independent students to claim federal tax credits given sufficient tax liability
- Minimize impacts on lottery scholarship fund from tuition increases

Potential Disadvantages:

- Diminish transparency of link between the lottery scholarship fund and tuition
- Would there be impacts on perception of state commitment?
- Would there be impacts on strength of lottery ticket sales and advertising campaign?

The Council of University Presidents notes “decoupling the scholarship from institution tuition rates is a fundamental change, the consequences of which are not well understood. This is an issue of a magnitude that requires very careful examination and modeling yet to be undertaken.”

NMACC notes “decoupling from tuition and establishing a flat rate for educational expenses puts more control over tuition increases with the Legislature. Furthermore decoupling can also extend the life of the fund with the effect of less annual impact on the fund by large tuition increases.”

NMACC also notes “Since tuition rates are determined locally, there is a great disparity in tuition both between the sectors and within the sectors so decoupling will create a disparity at different colleges among those that will have to make up some tuition to attend a college in a particular area and those that will not only have lottery money to cover their tuition but perhaps fees and books as well.”

FISCAL IMPLICATIONS

The fiscal impact associated with this bill reflects the anticipated reduction in payments to students driven by establishing scholarship amounts below tuition rates for certain institutions in FY06. Given the bill provides the scholarship award amounts would be established annually, the magnitude of future impacts is not clear.

To the extent the legislature authorized increases in scholarship amounts at levels lower than increases in actual tuition charges, the savings for the lottery tuition fund could escalate over time. In its analysis on Senate Bill 651, CHE notes the long-term average growth of tuition in New Mexico is about 10 percent for research institutions, 8 percent for regional institutions and 7 percent at community colleges. (In comparison, NMACC notes the 11 year average resident tuition increase at community colleges is around 50% or less than 5% annually). If scholarship awards are allowed to grow by roughly the amount of inflation (using a measure similar to consumer price index), then the differential could result in fund savings of roughly \$3.2 million in FY07 and \$5.7 million in FY08 under CHE assumptions.

However, other escalators which could be considered might include the amount of the tuition revenue credit or one of the published higher education cost indices. These escalators would be greater than more common measures of inflation, i.e. the consumer price index, with the implication that the escalation of future savings for the lottery scholarship fund is not clear.

OTHER SUBSTANTIVE ISSUES

A CHE Fact Sheet on Decoupling notes the federal HOPE credit provides up to \$1,500 in tax credits for the first two years of post-secondary education, and the federal Lifetime Learning credit provides up to \$2,000 for on-going education. Taxpayers with dependent, qualifying students would be eligible to receive the credit, while independent students would be eligible for the credit. Note federal tax liability must be sufficient to claim these credits.

For students in the first two years of college (or other eligible post-secondary training), taxpayers are eligible for the HOPE tax credit equal to 100% of the first \$1,000 of tuition and fees and 50% of the second \$1,000 (the amounts are indexed for inflation after 2001). The credit will be available on a per-student basis for net tuition and fees (less grant aid) paid for college enrollment after December 31, 1997. [The credit is phased out for joint filers between \\$80,000 and \\$100,000 of income, and for single filers between \\$40,000 and \\$50,000 \(indexed after 2001\).](#) The credit can be claimed in two taxable years (but not beyond the year when the student completes the first two years of college) with respect to any individual enrolled on at least a half-time basis for any portion of the year.

The Lifetime Learning Credit is focused on college juniors, seniors, graduate students and working individuals pursuing lifelong learning to upgrade their skills. For those beyond the first two years of college, or taking classes part-time to improve or upgrade their job skills, the family will receive a 20% tax credit for first \$5,000 of tuition and fees through 2002, and for the first 10,000 thereafter. The credit is available for net tuition and fees (less grant aid) paid for post-secondary enrollment after June 30, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE Scholarship.

NMACC suggests “To honor past commitments, those currently on lottery should be grandfathered at the tuition rate for the duration of their scholarship. This may help lessen the resistance for accepting the decoupling concept.”

The legislature may wish to consider a sunset provision to re-evaluate the decoupling initiative and its impacts.

The legislature may wish to consider an annual review and reporting to the legislative finance

committee, legislative education study committee, office of the governor and department of finance and administration by:

- New Mexico Lottery Authority on revenue situation and outlook and
- Commission on Higher Education on
 - expenditure situation and outlook
 - fund balance situation and outlook
 - policy and fiscal impacts of each enacted change to lottery scholarship program

TECHNICAL ISSUES

The amounts specified on page 2, lines 22 to 25 and page 3, lines 1 to 13 may need to specify on a “per semester” basis.

AW/yr:lg

Attachment

**Comparison of New Mexico Public, Post-
secondary Tuition Rates**

	<u>Resident Tuition per semester FY03-04</u>	<u>Resident Tuition per se- mester FY04-05</u>
<u>Research Universities</u>		
New Mexico Tech	\$1,078	\$1,153
New Mexico State	\$1,209	\$1,314
University of New Mexico	\$1,370	\$1,556
<hr/>		
<u>Comprehensive Universities</u>		
Eastern New Mexico	\$888	\$939
New Mexico Highlands	\$804	\$816
Western New Mexico	\$876	\$948
<hr/>		
<u>Branch</u>		
ENMU – Roswell	\$397	\$421
NMSU – Alamogordo	\$468	\$516
NMSU – Carlsbad	\$480	\$480
NMSU – Dona Ana	\$420	\$444
NMSU – Grants	\$432	\$492
UNM – Gallup	\$492	\$528
UNM – Los Alamos	\$420	\$444
UNM – Taos	\$444	\$480
UNM – Valencia	\$456	\$492
<u>Community Colleges</u>		
Albuquerque TVI	\$444	\$462
Clovis Community College	\$288	\$288
Luna Community College	\$300	\$300
Mesalands Community College	\$510	\$525
New Mexico Junior College	\$204	\$204
Northern New Mexico	\$324	\$348
Santa Fe Community College	\$318	\$360
<hr/>		
San Juan College	\$300	\$0